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STATE OF MONTANA

Report to the Legislature

MONTANA ARTS COUNCIL

Report on the Examination of Financial Statements
Two Fiscal Years Ended June 30, 1983

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
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STATE OF MONTANA

Report to the Legislature

MONTANA ARTS COUNCIL

Report on the Examination of Financial Statements
Two Fiscal Years Ended June 30, 1983

83-27

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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MONTANA ARTS COUNCIL

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

Montana Arts Council Members

		Term Expires
Jessica Stickney	Miles City	1987
Ceridwen Breen	Missoula	1985
Robert M. Cavanaugh	Kalispell	1987
Lorilee Driscoll	Butte	1985
Shirley L. Hanson	Havre	1988
Sonia Hoffmann	Helena	1988
Howard Hunke	Sidney	1988
Claudette Johnson	Helena	1988
John Johnson	Glendive	1985
Preston L. Stiffarm	Harlem	1987
Sue Talbot	Missoula	1988
Charles F. Tooley	Billings	1987
JoAnne Troxel	Bozeman	1985
Carolyn Valacich	Great Falls	1985
Patrick Zentz	Laurel	1987

Administrative Officials

David E. Nelson	Executive Director
Jo-Anne Mussulman	Grants Officer

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	Page
Recommendation #1 Montana Arts Council recognize federal grant revenue in the year earned in accordance with generally accepted accounting principles.	3
Agency Reply: Concur. See page 21.	
Recommendation #2 Montana Arts Council comply with state property accounting policy by implementing the Property Accountability Management System.	4
Agency Reply: Concur. See page 21.	
Recommendation #3 Montana Arts Council record capital leases in accordance with generally accepted accounting principles and state accounting policy.	4
Agency Reply: Concur. See page 21.	
Recommendation #4 The Montana Arts Council: A. Ensure federal financial reports are prepared in accordance with the instructions included in "Circular A-102, Attachment H."	7
Agency Reply: Concur. See page 22.	
B. Establish written procedures for the preparation of federal reports that will provide an audit trail for the amounts presented on the reports.	7
Agency Reply: Concur. See page 22.	
C. Submit reports in a timely manner or obtain written documentation from the NEA approving an extension of the reporting deadline.	7
Agency Reply: Concur. See page 22.	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #5
Montana Arts Council comply with Attachment P audit requirements by obtaining copies of required audit reports from subgrantees. 8

Agency Reply: Concur. See page 22.

Recommendation #6
Montana Arts Council negotiate an agreement with the federal government to recover indirect costs incurred in administering federal grants. 9

Agency Reply: Concur. See page 22.

Recommendation #7
Montana Arts Council ensure year-end receivables and payables are accurately reflected by specially coding intra-entity transactions. 10

Agency Reply: Concur. See page 22.

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INTRODUCTION

We performed a financial/compliance audit of the Montana Arts Council (Council) for the two fiscal years ended June 30, 1982 and 1983. The objectives of our audit were to: 1) determine if the agency's financial statements present fairly the financial position at June 30, 1983 and the results of operations for the two fiscal years then ended; 2) determine if the Council complied with significant applicable laws and regulations; and 3) make recommendations for improvement in management and internal controls.

In our opinion, the Montana Arts Council complied with significant laws and regulations for the transactions tested that could have materially affected the Council's financial statements. Nothing came to our attention in connection with our examination that caused us to believe the Council was not in compliance with laws and regulations for those transactions not tested.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Based on this analysis, we determined there will be no significant costs to the Council to implement the recommendations contained herein.

We thank the Montana Arts Council staff for their cooperation and assistance during the audit.

BACKGROUND

The Montana Arts Council was established as a state agency in 1967. The Executive Reorganization Act of 1971 transferred the Council to the State Board of Education for purposes of planning and coordination. The members of the Montana Arts Council are responsible for the governance, management, and control of the agency. Four full-time equivalent positions for administration of the agency were authorized and filled during the two fiscal years under audit.

The Council consists of fifteen members appointed by the governor, with consent of the senate, for a term of five years.

Members do not receive compensation for serving on the Council other than reimbursement for travel expenses.

The duties of the Council include: 1) encouraging study and presentation of the arts throughout the state, 2) stimulating public interest and participation in the arts, 3) cooperating with public and private institutions in artistic and cultural activities, 4) fostering public interest in Montana's cultural heritage and expanding the state's cultural resources, and 5) encouraging and assisting freedom of artistic expression.

The Council's primary source of revenue is federal grants from the National Endowment for the Arts. The Council contracts with individuals or regrants these funds to nonprofit organizations for completion of various art projects. These funds are also used to pay a portion of the Council's operating costs. The National Endowment requires that federal funds be matched by the state or subgrantee on at least a dollar-for-dollar basis.

The following report sections discuss areas of concern noted during our audit of the Council.

REVENUE RECOGNITION

The Montana Arts Council did not recognize grant revenue in accordance with generally accepted accounting principles. The Council requests grant funds on letter of credit in advance of anticipated expenditures. The Council should not recognize these receipts as revenue until the related expenditure has been made. Conversely, when the Council has made expenditures before funds are actually received from the federal government, revenue should be accrued for the expenditure amount.

If revenue is recognized properly, fund balances for federal grant accounting entities should equal zero at fiscal year-end. This is not the case with the two federal grant entities on the Council's accounting records. A fund balance of $9,903 accumulated in years prior to our audit period. The fund balance increased $39,748 during fiscal year 1981-82, representing an amount of revenue that should have been deferred. In fiscal year 1982-83,

fund balance decreased $8,453, representing expenditures made in advance of revenue receipts. The Council should have accrued this revenue.

Our prior audit recommended the Montana Arts Council recognize federal grant revenues in accordance with generally accepted accounting principles. The Council concurred with the recommendation and attempted to implement it at fiscal year-end 1981-82. The procedures used were not adequate to properly reflect grant revenues. The financial statements were adjusted to reflect grant revenues in accordance with generally accepted accounting principles.

RECOMMENDATION #1

WE RECOMMEND THE MONTANA ARTS COUNCIL RECOGNIZE FEDERAL GRANT REVENUE IN THE YEAR EARNED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

FIXED ASSET RECORDS

The Montana Arts Council does not maintain a consolidated record of all fixed assets owned. Without such records, the Council's accountability for its fixed assets is seriously impaired. Because the Council continually loans items of equipment for use in sponsored projects, accountability is especially important. We were able to determine the amount the agency should have recorded by reviewing various lists of equipment purchased in the past. These lists are the only record of the Council's fixed assets. The lists do not provide information for the specific identification of each asset, such as individual property numbers.

State accounting policy requires that agencies utilize the Property Accountability Management System (PAMS) to manage and account for fixed assets owned by the state of Montana. PAMS, as a subsidiary ledger in the Statewide Budgeting and Accounting System (SBAS), is necessary to ensure accurate reporting of the agency's investment in fixed assets. PAMS also enhances physical control over fixed assets through the use of property tags. The agency has only one of its fixed assets recorded on PAMS. According to an agency official, fixed assets have not been recorded on

PAMS or assigned property numbers and tags due to a lack of manpower.

The Council has not recorded $56,122 in fixed assets on SBAS. The financial statements have been adjusted for this error.

RECOMMENDATION #2

WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH STATE PROPERTY ACCOUNTING POLICY BY IMPLEMENTING THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

CAPITAL LEASES

The Council did not record the purchase of an item of equipment in accordance with generally accepted accounting principles (GAAP). We reviewed the lease agreement for a copier and determined the transaction should be accounted for as a capital lease as the present value of the minimum lease payments exceeded 90 percent of the copier's fair value.

The Department of Administration's Accounting Division developed procedures for recording capital leases in accordance with GAAP and instructed agency personnel on the procedures. Under the method prescribed by the Accounting Division, the asset should have been recorded at the inception of the lease in the amount to be paid (excluding interest) over the entire lease term. A liability should be recorded for the entire amount payable under the lease and subsequently reduced with each lease payment.

Assets in the General Fixed Asset Account Group were understated by $6,341. Liabilities in the General Long Term Debt Account Group were understated $3,900, which represents the principal amount to be paid in subsequent fiscal years.

RECOMMENDATION #3

WE RECOMMEND THE MONTANA ARTS COUNCIL RECORD CAPITAL LEASES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE ACCOUNTING POLICY.

FEDERAL COMPLIANCE

The Council receives a portion of its funding from federal sources. Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the Council in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed major compliance areas for grants received from the National Endowment for the Arts. Areas reviewed include:

1. cost allowability;
2. financial reporting systems;
3. eligibility determination; and
4. audit requirements.

During our review we noted compliance problems in the following areas:

--completion of required reports; and

--Attachment P audit requirements for subgrantees.

Each of these areas is discussed in separate sections following.

We determined the effects of noncompliance on program accomplishments and the allowability of costs. In the following sections of our audit report we discuss compliance problems requiring disclosure in accordance with Attachment P. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiencies noted did not significantly affect the successful operation of the programs. It is our opinion the deficiencies noted did not significantly affect the allowability of costs in conformity with program regulations.

Background

The Council receives funding from the National Endowment for the Arts (NEA) in the form of two grants, the Basic State Grant

(BSG) and the Artist in the Schools program (AIS). Funds from the BSG are subgranted to nonprofit organizations, used to pay a portion of the Council's operating costs, and used to supplement AIS grants in funding that program.

Both grants require the grantee or subgrantee to match federal funds at least dollar-for-dollar.

Federal Reports

The Montana Arts Council did not comply with federal regulations regarding accuracy, proper support for data, and timeliness of federal reports.

Accuracy and Support Documentation

The Council's final BSG and AIS federal reports for fiscal years 1981-82 and 1982-83 were inaccurate because each report included information relating to the other grant. The reports prepared for the BSG incorrectly compiled financial information for both grants in total. The AIS grant reports included a portion of non-federal (match) moneys spent in the BSG program.

Additionally, we could not verify the accuracy of other data included in the BSG reports due to a lack of supporting documentation. We tied amounts for federal funds expended to support documents, but could not trace all amounts reported as non-federal outlays to proper support. For instance, Council personnel adjusted amounts from subgrantee final reports without documentation of the reasons for the adjustments.

Federal instructions for completing the Financial Status Report Form, contained in "Circular A-102, Attachment H," specify that each grant be separately reported. Regulations also state final reports should be properly supported. Amounts presented on final reports should be traceable to the Council's accounting records and/or subgrantee's final reports. Subsequent to our audit, the Council prepared an amended final report for the BSG.

The reporting errors involving the combining of data from both grants could be avoided by adhering to the instructions for

completing financial reports and by coordinating report preparation. Currently, different staff members prepare the BSG and the AIS financial status reports.

The Council does not have written procedures for preparation of federal reports. Such written procedures would aid in preparation of the reports and provide an adequate audit trail to verify the accuracy of amounts presented.

Timeliness

The Montana Arts Council did not meet the deadline for submitting the final financial report for their fiscal year 1982-83 BSG. The Council did submit an interim report, pending their receipt of final expense reports from several subgrantees.

A Council official stated that verbal approval for an extension had been obtained from the National Endowment for the Arts. The Council should obtain written documentation for such an extension to ensure compliance with the NEA's prescribed deadline.

RECOMMENDATION #4

WE RECOMMEND THE MONTANA ARTS COUNCIL:

A. ENSURE FEDERAL FINANCIAL REPORTS ARE PREPARED IN ACCORDANCE WITH THE INSTRUCTIONS INCLUDED IN "CIRCULAR A-102, ATTACHMENT H."
B. ESTABLISH WRITTEN PROCEDURES FOR THE PREPARATION OF FEDERAL REPORTS THAT WILL PROVIDE AN AUDIT TRAIL FOR THE AMOUNTS PRESENTED ON THE REPORTS.
C. SUBMIT REPORTS IN A TIMELY MANNER OR OBTAIN WRITTEN DOCUMENTATION FROM THE NEA APPROVING AN EXTENSION OF THE REPORTING DEADLINE.

Audits of Subgrantees

The Council did not comply with Office of Management and Budget (OMB) Circular A-102, Attachment P, that states, in part, "Recipients (of federal assistance) shall require subrecipients that

are state and local governments or Indian tribal governments to adopt the (audit) requirements in (Circular A-102, Attachment P)."

Many of the subgrants made by the Council are less than $500. Because the potential cost to audit a small grant may exceed the value of the grant, our prior audit recommended the Council contact Montana's cognizant federal agency, the Department of Health and Human Services, for guidance on the necessity of Attachment P audits of small subgrantees. A Council official stated he asked the National Endowment for the Arts for guidance but had not received a reply.

In the absence of an exemption from Attachment P audit requirements for small subgrantees, the Council is responsible for ensuring that audit reports from subgrantees are received as required and made available to Montana's cognizant federal agency. The Council could be denied federal funds for not complying with OMB requirements.

RECOMMENDATION #5

WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH ATTACHMENT P AUDIT REQUIREMENTS BY OBTAINING COPIES OF REQUIRED AUDIT REPORTS FROM SUBGRANTEES.

INDIRECT COST REIMBURSEMENT

The Montana Arts Council did not negotiate with the federal government for the reimbursement of indirect costs as required by section 17-3-111, MCA.

Federal funds received from the National Endowment for the Arts are used to pay one-half of the operating costs of the Montana Arts Council. Indirect costs allocated to the Council that are associated with state service agencies are not included as Council operating costs. The state General Fund absorbs these costs.

The Department of Administration's Statewide Cost Allocation Plan for fiscal years 1981-82 and 1982-83 allocated $3,392 and $4,838, respectively, to the Council. If the agency had negotiated

and received an agreement for indirect cost reimbursement from the federal government, a portion of these costs would be recovered for the General Fund.

A Council official indicated the agency agreed that indirect costs should be recovered but the staff has not had time to prepare an indirect cost proposal.

RECOMMENDATION #6

WE RECOMMEND THE MONTANA ARTS COUNCIL NEGOTIATE AN AGREEMENT WITH THE FEDERAL GOVERNMENT TO RECOVER INDIRECT COSTS INCURRED IN ADMINISTERING FEDERAL GRANTS.

CASH RESTATEMENT

The agency did not properly record cash transactions at fiscal year-end 1982-83. In order to reflect actual June 30 cash balances for financial statement purposes, the Department of Administration established special receivable and payable accounts for amounts received and paid during the fiscal year-end adjustment period. These accounts are automatically generated in place of the cash account during the adjustment period.

According to Management Memo 2-83-2, transactions that occur within an accounting entity of the Council are proper adjustments to the cash account during the adjustment period and must be specially coded.

Because the Council did not specially code intra-entity transactions during the adjustment period, the adjustments to cash were incorrectly recorded as receivables and/or payables.

Additionally, during our review of year-end transactions, we noted an instance in which a payable was reduced when a receivable should have been established.

The net result of these errors was an understatement of receivables and payables of $3,471 in the General Fund and an overstatement of receivables and payables of $16,813 in the Special Revenue Fund at June 30, 1983. The financial statements have been adjusted for the errors.

RECOMMENDATION #7

WE RECOMMEND THE MONTANA ARTS COUNCIL ENSURE YEAR-END RECEIVABLES AND PAYABLES ARE ACCURATELY REFLECTED BY SPECIALLY CODING INTRA-ENTITY TRANSACTIONS.

INTERNAL CONTROL

We have examined the financial statements of the Montana Arts Council for the two fiscal years ended June 30, 1983. We issued our opinion dated October 20, 1983 on these statements. As part of our examination, we made a study and evaluation of the system of control of the Council. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receivables;
2. payroll;
3. expenditures/payables;
4. plant, property, and equipment; and
5. federal grants.

We evaluated controls over expenditures/payables; federal grants; and property, plant, and equipment. Through our study we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to revenue/receivables and payroll because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed

in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Council. However, our study disclosed a weakness in internal controls over property, plant and equipment, represented by a lack of adequate fixed asset records as discussed on page 3 of this report.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements. This report on internal control does not affect our opinion on the financial statements.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Montana Arts Council was performed by our office for the two fiscal years ended June 30, 1981. We made four recommendations still applicable to the agency.

The agency partially implemented one recommendation and did not implement three of the recommendations, although they concurred with each one. The status of these recommendations is discussed in previous sections of the report: revenue (page 2), federal compliance (page 8), and state compliance (page 9).

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheet - All Funds and Account Groups as of June 30, 1983 of the Montana Arts Council and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds for the two fiscal years ended June 30, 1982 and June 30, 1983. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Montana Arts Council as of June 30, 1983, and the results of its operations and changes in fund balance for the fiscal years ended June 30, 1982 and 1983, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Grant Receipts is presented for additional analysis and disclosure purposes and is not a required part of the combined financial statements for the Montana Arts Council. The schedule has been subjected to the auditing procedures applied in the examination of the basic financial statements

and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

James H. Gillett, CPA
Deputy Legislative Auditor

October 20, 1983

Approved:

Robert R. Ringwood
Legislative Auditor

MONTANA ARTS COUNCIL
COMBINED BALANCE SHEET
ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1983

	General Fund	Special Revenue Fund	General Fixed Assets Account Group	Long-Term Debt Account Group
ASSETS				
Cash		$ 48,932		
Cash on Hand at FYE	$ 19	2,011		
Accounts Receivable Cash Cutoff Adjustment		872		
Accounts Receivable		325		
Due From FYE Cash Cutoff Adjustment	4,822	39,641		
Federal Cost Reimbursement Receivables		8,453		
Equipment			$59,804	
Inventory		355		
Assets Available to Pay Accruals and Payables	27,855			
Amount to be Provided for Capital Lease				$3,900
Total Assets	$32,696	$100,589	$59,804	$3,900
LIABILITIES & FUND EQUITY				
Accounts Payable	$ 839	$ 3,374		
Accounts Payable - FYE Cash Cutoff Adjustment		7,321		
Due to FYE Cash Cutoff Adjustment	25,530	25,330		
Accrued Expenditures	1,486	114		
Deferred Revenue		62,867		
Capital Lease Payments Payable				$3,900
Due to State General Fund	4,841			
Total Liabilities	32,696	99,006	$ -0-	3,900
Investment in General Fixed Assets			59,804	
Fund Balance	-0-	1,228		
Reserve for Inventory		355		
Total Liabilities & Fund Equity	$32,696	$100,589	$59,804	$3,900

The notes to the financial statements are an integral part of this statement.

MONTANA ARTS COUNCIL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:						
Federal Assistance				$407,256	$353,778	$(53,478)
Grants, Gifts, Bequests, and Donations				46,302	46,080	(222)
Total Revenues	$ -0-	$ -0-	$-0-	453,558	399,858	(53,700)
EXPENDITURES:						
Promotion of the Arts	112,119	112,119	-0-	474,559	431,848	42,711
Total Expenditures	112,119	112,119	-0-	474,559	431,848	42,711
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(112,119)	(112,119)	-0-	(21,001)	(31,990)	(10,989)
Prior Year Adjustments				2,796	2,796	-0-
OTHER FINANCING SOURCES (USES):						
Transfer From Coal Tax Trust Fund				27,337	27,337	-0-
Support From the State of Montana	112,119	112,119	-0-			
Inventory Adjustment				354	354	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	9,486	(1,503)	10,989
FUND BALANCE JULY 1, 1982	-0-	-0-	-0-	3,086	3,086	-0-
FUND BALANCE JUNE 30, 1983	$ -0-	$ -0-	$-0-	$ 12,572	$ 1,583	$ 10,989

The notes to the financial statements are an integral part of this statement.

MONTANA ARTS COUNCIL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	GENERAL FUND			SPECIAL REVENUE FUND		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:						
Federal Assistance				$ 410,594	$335,220	$(75,374)
Grants, Gifts, Bequests, & Donations				51,475	48,648	(2,827)
Rentals, Leases, & Royalties				5,000	-0-	(5,000)
Total Revenues	$ -0-	$ -0-	$-0-	467,069	383,868	(83,201)
EXPENDITURES:						
Promotion of the Arts	104,793	104,793	-0-	903,038	412,196	490,842
Total Expenditures	104,793	104,793	-0-	903,038	412,196	490,842
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(104,793)	(104,793)	-0-	(435,969)	(28,328)	407,641
Prior Year Adjustments				(3,441)	(3,441)	-0-
OTHER FINANCING SOURCES (USES):						
Transfer From Coal Tax Trust Fund				51,849	24,512	(27,337)
Support From the State of Montana	104,793	104,793	-0-			
Transfer from Department of Fish, Wildlife and Parks				812	812	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	(386,749)	(6,445)	380,304
FUND BALANCE JULY 1, 1981	-0-	-0-	-0-	12,140	12,140	-0-
Prior Period Adjustment				(2,609)	(2,609)	-0-
FUND BALANCE JULY 1, 1981 (as restated)	-0-	-0-	-0-	9,531	9,531	-0-
FUND BALANCE JUNE 30, 1982	$ -0-	$ -0-	$-0-	$(377,218)	$ 3,086	$380,304

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when received in cash, unless susceptible to accrual or deferral, and expenditures are recorded when a valid obligation is incurred. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and received before the "normal" time of receipt or if received for a particular activity and the expense for the activity has not been incurred prior to fiscal year-end.

With the following clarifications, a valid obligation exists when the associated liability is incurred:

--The liability amount associated with unused accumulated vacation and sick leave at June 30, 1983 was $18,676. Upon termination, qualifying employees are paid at their current pay rate for 100 percent of accumulated vacation and 25 percent of unused sick leave. The liability is recognized at the time an employee elects to take vacation and/or sick leave.

--If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

--The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

--Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

General Fixed Assets

General fixed assets are recorded as expenditures in the various funds at the time of purchase. Assets purchased are

recorded at acquisition cost. Gifts are recorded in general fixed assets records at fair market value at the time received. Depreciation is not provided on general fixed assets.

Fund Types

The state of Montana accounts are organized utilizing a fund structure outlined in section 17-2-102, MCA. For financial reporting, these funds have been additionally reclassified according to the recommended format established by the National Council on Governmental Accounting (NCGA).

Governmental Fund Types

General Fund - to account for moneys, except those moneys required to be accounted for in another fund. General Fund moneys deposited in the state treasury are available to defray the costs of state government.

Special Revenue Fund - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Revenue from federal and community matching grants, appropriations of the coal tax funds for cultural and aesthetic purposes, and grant moneys distributed to subgrantees for Council initiated projects and special grants are recorded in the Special Revenue Fund.

2. RETIREMENT SYSTEM

Council employees participate in the Public Employees' Retirement System (PERS), a contributory plan which covers public employees in the state. The state contributes 6.32 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to PERS. Total pension contributions made by the Council during fiscal year 1981-82 were $4,779 and during fiscal year 1982-83, $5,466.

The state's policy is to fund accrued pension costs. At June 30, 1982, the PERS was actuarially sound. The unfunded past service costs and the actuarially computed value of vested

benefits were not readily available for members of the plan employed by the agency.

3. LEASES

The Council made payments of $2,008 in fiscal year 1982 and $2,753 in fiscal year 1983 for leased equipment. Lease purchases are recorded as expenditures over the lease term as they become payable. Current commitments under the lease agreement for equipment provide for the following minimum lease payments:

Fiscal Year	Capital Lease
1984	$2,190
1985	1,710

4. BUDGET INFORMATION

The Council utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. Appropriations control the Council's financial operations during each fiscal year. At the end of each year, the Council's general fund balance reverts to the fund of origin. Due to timing differences between the federal granting year and the state fiscal year, Special Revenue Fund appropriations were established as continuing from year to year until expended for fiscal year 1982. No continuing appropriations were allowed at fiscal year-end 1983, and all unexpended balances in this fund were accrued at that time. Reverted appropriations may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the Legislature but available from sources other than the General Fund or federal revenue sharing moneys. Budget amendments are approved by the Governor or his designee.

MONTANA ARTS COUNCIL
SCHEDULE OF GRANT RECEIPTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1983

Grant Number	Grant Name	Fiscal Year Ended June 30,1982	Fiscal Year Ended June 30,1983
02-6141-060 02-6152-061	FY 81 FSP	$ 6,210	
12-6141-032	FY 82 FSP	292,700	$ 6,110
22-6141-029	FY 83 FSP		282,700
	Total FSP	298,910	288,810
12-5150-038	Artists in Schools	55,000	
22-5150-027	Artists in Schools		49,530
12-5530-062	Folklife Record		8,051
02-5530-116	Folklife Facilitation		4,325
02-5530-117	Folklife Radio	1,637	1,347
02-5530-166	Folklife AIS		3,608
12-6250-015	Air Aging	10,000	
02-4230-096	City Spirit	4,000	
22-4250-234	City Spirit		2,870
Total Federal Grants		$369,547	$358,541

NOTE: The schedule above has been prepared on a cash basis. Depending on the timing of transactions, cash receipts may not always be equal to revenue.

AGENCY REPLY

MONTANA ARTS COUNCIL

TED SCHWINDEN, GOVERNOR
1280 S 3RD WEST
STATE OF MONTANA
(406) 543-8286
MISSOULA, MONTANA 59801

RECEIVED
JAN 10 1984
MONTANA LEGISLATIVE AUDITOR

Jan. 9, 1984

MEMORANDUM

TO: James H. Gillett
Deputy Legislative Auditor

FROM: David E. Nelson DEN
Executive Director

This Agency's written reply to the audit report for fiscal years 1982 and 1983 follows.

RECOMMENDATION #1
WE RECOMMEND THE MONTANA ARTS COUNCIL RECOGNIZE FEDERAL GRANT REVENUE IN THE YEAR EARNED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

This is a difficult recommendation to implement as SBAS does not provide the information necessary to accurately calculate federal grant revenue at fiscal year end. This agency will accumulate the information required to calculate these balances at fiscal year end and recognize federal grant revenue in the year earned in accordance with generally accepted accounting principles. It is also our understanding that SBAS will make allowances for providing this information and making final adjustments at FYE 84.

RECOMMENDATION #2
WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH STATE PROPERTY ACCOUNTING POLICY BY IMPLEMENTING THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

The physical inventory, tagging of articles and entering of data on the PAMS input documents will occur prior to the relocation of the agency in Helena. Preliminary work has been done under contract on the physical inventory of the audio-visual equipment (the additional cost to date has been about $500). The implementation of this recommendation will require contracting additional assistance, at an estimated cost of $1,500.

RECOMMENDATION #3
WE RECOMMEND THE MONTANA ARTS COUNCIL RECORD CAPITAL LEASES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE ACCOUNTING POLICY.

Concur. Implementation will occur immediately.

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RECOMMENDATION #4
WE RECOMMEND THE MONTANA ARTS COUNCIL:
A. ENSURE FEDERAL FINANCIAL REPORTS ARE PREPARED IN ACCORDANCE WITH THE INSTRUCTIONS INCLUDED IN "CIRCULAR A-102, ATTACHMENT H".
B. ESTABLISH WRITTEN PROCEDURES FOR THE PREPARATION OF FEDERAL REPORTS THAT WILL PROVIDE AN AUDIT TRAIL FOR THE AMOUNTS PRESENTED ON THE REPORTS.
C. SUBMIT REPORTS IN A TIMELY MANNER OR OBTAIN WRITTEN DOCUMENTATION FROM THE NEA APPROVING AN EXTENSION OF THE REPORTING DEADLINE.

Concur. Implementation will occur before the next federal financial reports are due.

The final BSG report for 1982-83 was submitted subsequent to the audit, and corrected to exclude amounts reported on the AIS final report. A copy of the report was submitted to the Legislative Auditor.

RECOMMENDATION #5
WE RECOMMEND THE MONTANA ARTS COUNCIL COMPLY WITH ATTACHMENT P AUDIT REQUIREMENTS BY OBTAINING COPIES OF REQUIRED AUDIT REPORTS FROM SUBGRANTEES.

We are looking to the NEA, the federal agency from which we receive our funds, for guidance on how best to concur with attachment P. We will continue to pursue this matter and will include in our requests for final expenditure reports for FY 84 grants the requirement that we receive copies of required audit reports.

RECOMMENDATION #6
WE RECOMMEND THE MONTANA ARTS COUNCIL NEGOTIATE AN AGREEMENT WITH THE FEDERAL GOVERNMENT TO RECOVER INDIRECT COSTS INCURRED IN ADMINISTERING FEDERAL GRANTS.

We are in the process of implementing this recommendation, having requested and received information from the NEA concerning negotiation of indirect cost rates. The amount of time required to accomplish this is unknown at this time. We will be in communication with other states that have been through the process and will have a report for the committee as to the progress of implementation.

RECOMMENDATION #7
WE RECOMMEND THE MONTANA ARTS COUNCIL ENSURE YEAR-END RECEIVABLES AND PAYABLES ARE ACCURATELY REFLECTED BY SPECIALLY CODING INTRA-ENTITY TRANSACTIONS.

Concur. Implementation will occur at fiscal year end.